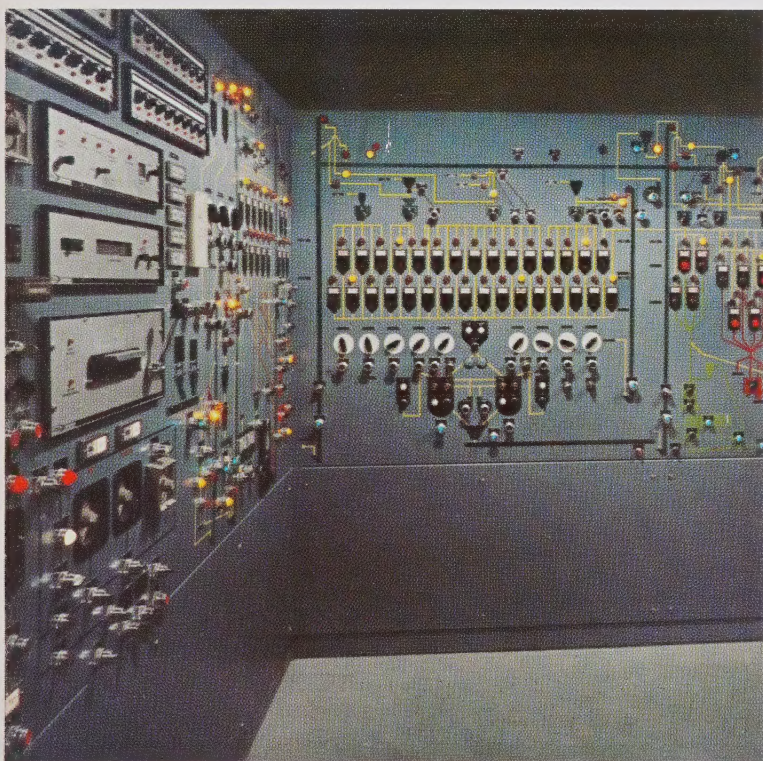


AR08

**ROBERT MORSE
CORPORATION LIMITED**



ANNUAL REPORT 1967

COVER

The photo on the left shows a portion of the modern feed mill batching and distribution control panel installed in 1967 at Barber & Bennett, Albany, N.Y. This panel incorporates the latest Howe Richardson modular design of instrumentation.

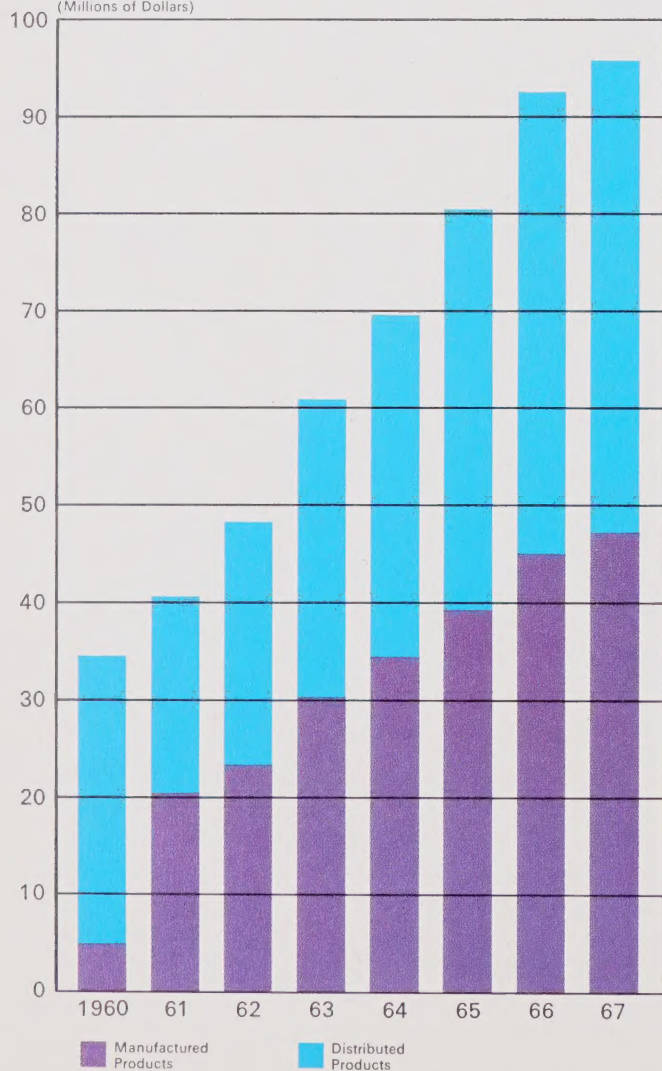
Five Johnston pumps take water from behind the San Diequito Dam and boost it into transmission lines for distribution in the Rancho Santa Fe area of Southern California. Three units are driven by electric motors and two by gas engines for a total of 1,600 horse-power. The station can produce 15,400 gallons per minute with all pumps operating.

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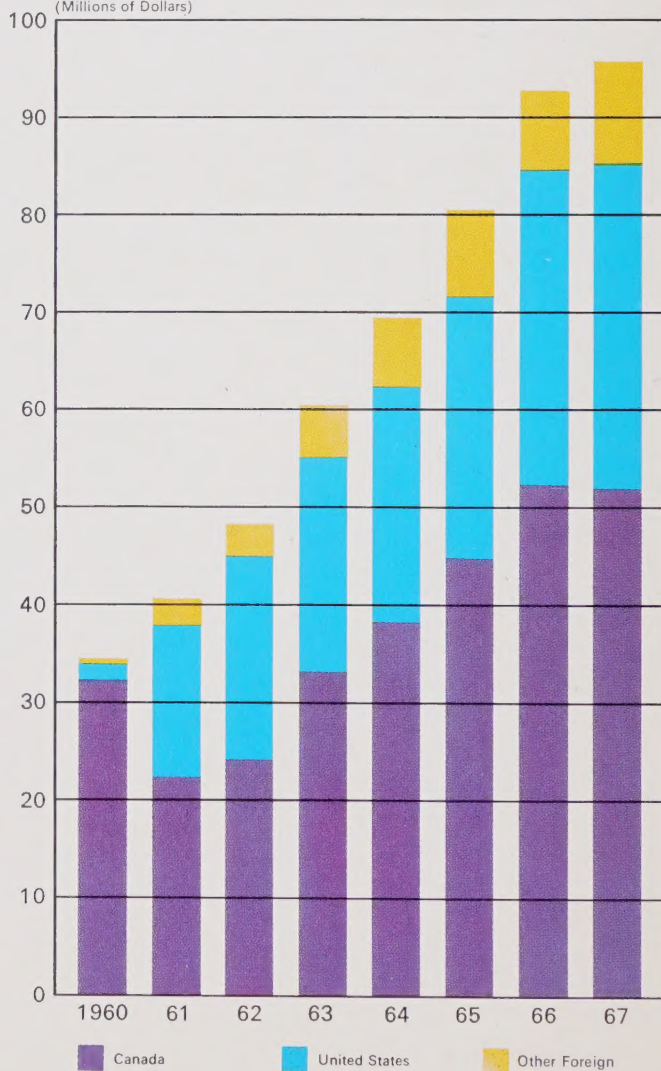
NET SALES BY CLASS OF BUSINESS

(Millions of Dollars)



NET SALES BY PRINCIPAL MARKETS

(Millions of Dollars)





SUMMARY	1967	1966	% Change
Orders Booked	\$100,919,000*	\$97,536,000	+ 3.5
Net Sales	95,574,412	93,280,396	+ 2.5
Backlog	25,702,000	29,371,000*	- 12.5
Income before Taxes and Extraordinary Items	3,209,411	3,577,019	- 10.3
Income Taxes	1,396,328	1,632,620	- 14.5
Income before Extraordinary Items . .	1,813,083	1,944,399	- 6.8
Extraordinary Items	619,611	—	—
Net Income	2,432,694	1,944,399	+ 25.1
Earnings per Share:			
Before Extraordinary Items			
Class A	1.87	2.35	
Class B	1.77	2.25	
After Extraordinary Items			
Class A	2.64	2.35	
Class B	2.54	2.25	
Depreciation	735,777	619,504	+ 18.8
Working Capital	19,729,770	14,350,864	+ 37.5
Total Assets	52,148,213	48,990,042	+ 6.4
Shareholders' Equity	19,207,785	13,635,714	+ 40.9

*Backlog at December 31, 1966 and orders booked in 1967 include \$3,567,000 and \$5,447,000, respectively, of orders related to the marine propulsion business transferred as of June 30, 1967.



TO OUR SHAREHOLDERS:

We are pleased to report that 1967 was a year of continuing growth and achievement for the Company. A sales record was set for the seventh consecutive year, and orders booked, cash flow, working capital, and shareholders' equity all reached new highs. Operating income was somewhat lower, however, because of moving our Johnston Pump operations into a new plant, and a downward cycle in our Canadian marine engine business, which was sold at the middle of the year.

EARNINGS AND DIVIDENDS

Consolidated net income for 1967 was \$2,433,000, of which \$1,813,000 was operating income, and \$620,000 was realized from extraordinary items. In 1966 consolidated net income, all from operations, was \$1,944,000. After providing for preferred dividends, earnings for Class A and B shares were \$2.64 and \$2.54 respectively, or \$1.87 and \$1.77 after excluding extraordinary items. The Class A and B earnings per share in 1966 were \$2.35 and \$2.25. Cash flow (net income plus depreciation) set a new record at \$3,168,000 in 1967 compared to \$2,564,000 in the previous year.

The extraordinary items were the sale of a portion of the Johnston Pump property in Pasadena, vacated when the new plant was occupied, and the sale at June 30, 1967, of the large engine segment of our marine propulsion business. The former resulted in a gain of \$250,000 after allowing for deferred income tax and certain costs directly attributable to the plant relocation. The gain on the sale of the marine business, \$370,000, was somewhat lower than previously estimated due to the suspension, in November, 1967, of certain government orders for ship construction.

Effective June 1, 1967 quarterly dividends on Class A and B shares were increased to 25 cents and 22½ cents respectively, equivalent to \$1.00 and

\$0.90 on an annual basis. Regular quarterly dividends were paid on the Series A Preferred shares. An initial payment of 34 cents on the Series B Preferred shares was made on June 1, 1967 and regular quarterly payments of 68¾ cents were made thereafter.

SALES

Consolidated sales for 1967 were \$95,574,000 compared to \$93,280,000 last year, an increase of 2.5%. While Canadian sales were approximately the same as the previous year, our subsidiaries in the United States and overseas produced an increase of \$2 million, or 5%.

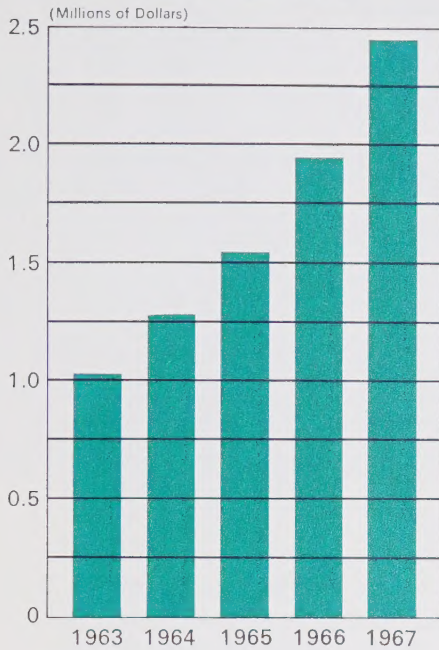
After excluding \$3,567,000 in unfilled orders of the marine propulsion business reported in the backlog of December 31, 1966, the backlog at December 31, 1967 was approximately the same as that of the previous year.

FINANCIAL

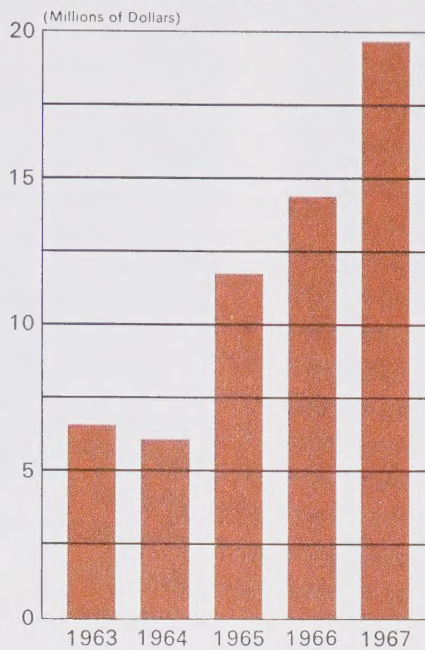
Substantial increases in working capital and shareholders' equity were made during the year, providing a sound base for the Company's continuing expansion. Working capital was increased 37% to \$19,730,000, and shareholders' equity reached \$19,208,000 as against \$13,636,000 a year earlier. A part of these increases, amounting to \$3,456,000, resulted from the issue in April of 72,000, 5½% Cumulative Redeemable Convertible Preferred Shares Series B.

In September, 44,875 Class A shares were issued to acquire Galbraith & Sulley Limited, Vancouver. While already listed at Montreal and Toronto, the Company's shares were also listed during the year on the Vancouver Stock Exchange. Arrangements were made for the transfer of shares at Calgary, in order to meet requirements of the Alberta Estate Tax Rebate Act, making a total of eight transfer locations.

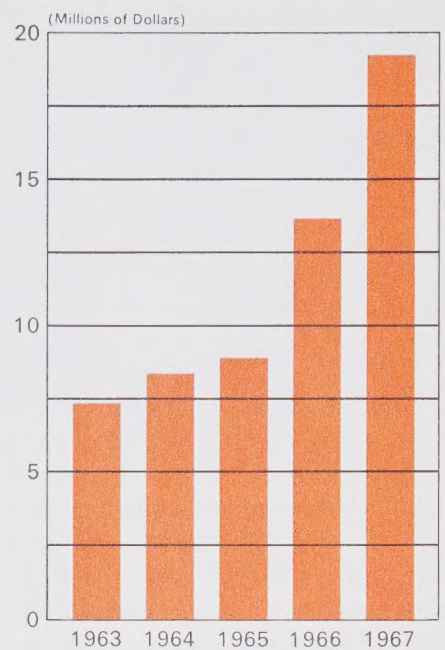
NET INCOME



WORKING CAPITAL



SHAREHOLDERS' EQUITY



As a result of advance hedging action, the recent devaluation of the pound sterling had no adverse effect on the book value of the Company's investments in Great Britain.

ACQUISITIONS AND DEVELOPMENT

During 1967 broad progress was made in adding new product lines, in developing our proprietary products and in growth by selective acquisition. All divisions contributed to these developments, several of which are mentioned in other sections of this report. Our 1967 acquisitions described on pages 14 and 15 have substantially improved our capability to service the oil and gas and woodlands industries. Galbraith & Sulley Limited adds manufacturing and marketing strength to our forest equipment business and enables us to offer a full range of tree-harvesting and processing machinery.

We continue to seek high potential acquisitions in Canada, the United States and abroad. While particularly interested in manufacturers of products complementary to our own, we also retain a flexible interest in diversification where there is capable management and good prospects for the future.

DIRECTORS

At the 1967 Annual Meeting, Raymond B. Carey, Jr., Group Vice President, and Claude M. Tétrault, Vice President and General Counsel, were elected Directors of the Company.

OUTLOOK

In Canada, the demand for capital equipment fell off toward the end of 1967, and continues at a reduced level in early 1968. Although there is increased volume in other categories of products, such as industrial supplies, we foresee a somewhat mixed picture in Canada for the next few months. In the United States, however, our manufacturing subsidiaries are showing gains over last year, and the outlook for 1968 is favourable.

Our gratifying record is directly attributable to the fine loyalty and diligence of our employees who now number over 3,100 in eight countries. We take this opportunity to express our deep appreciation for their individual and combined contribution to the Company's progress.

On behalf of the Board of Directors



President and General Manager

March 19, 1968.

The results of Howe Richardson Scale Company in 1967 were very encouraging. Although sales were up only modestly, Howe Richardson's profits set new records despite a continuing high level of research and development activity. The Company made its largest contribution to consolidated results since the merger of the Howe and Richardson Companies in 1962.

During the year the Company introduced "Magna-Count", an automatic counting system which has been well received in the automotive industry. "Magna-Count" permits the accurate counting of small, mass produced parts in a fraction of the time required to count manually. The largest single contract for automatic rubber compounding systems ever supplied by Howe Richardson was shipped in 1967. The design was completely solid state and was the first of its kind in the rubber industry.

During the year, the Canadian Scale Division continued to improve in all phases of its operation, resulting in record profits. Sales of heavy duty industrial scales were maintained. Further development of the market resulted in the sales of major

proportioning systems to the glass, food and bulk grain industries.

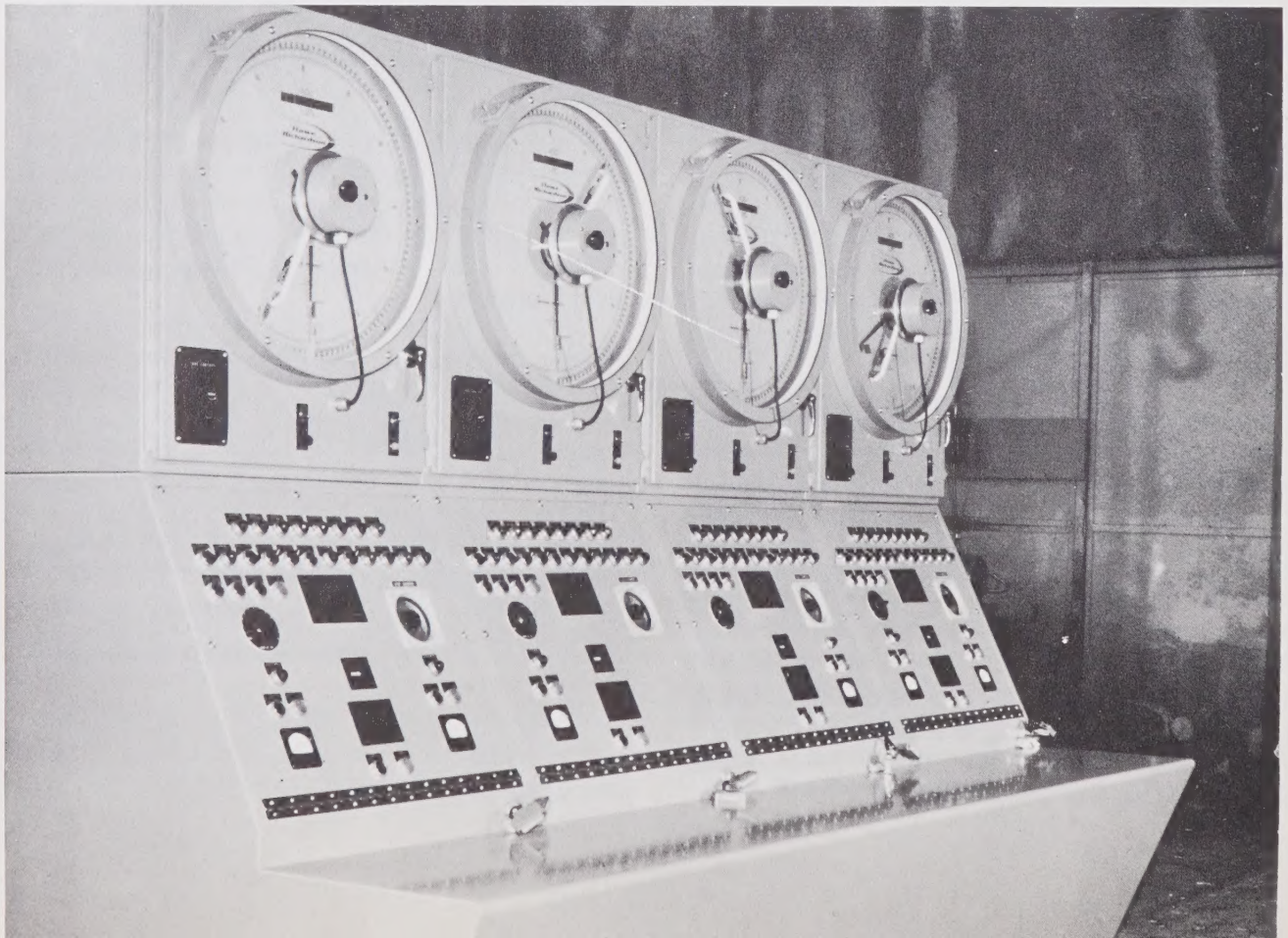
Howe Richardson of England performed satisfactorily during 1967. Bookings during the year reached a new high level and should bring favourable results during 1968 and 1969. The Company has continued to obtain a large proportion of export business.

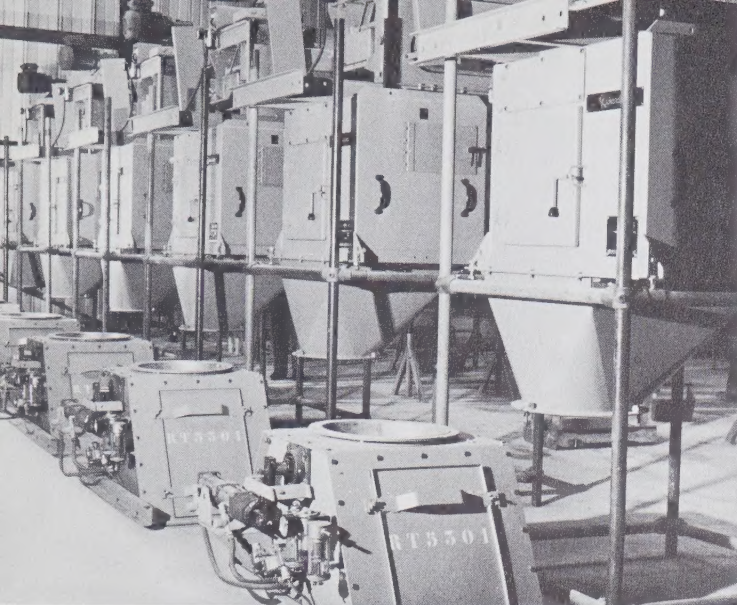
Richardson Scale Company of France realized record sales and profits in 1967 and entered 1968 with a strong order position. In addition to increased sales to the rubber and chemical markets in France, sales were made to Turkey, Bulgaria, Germany and other foreign markets.

The Australian subsidiary which had incurred relatively significant losses in 1966 improved according to plan. This upward trend is expected to continue, aided by further diversification in the Australian market through licensing arrangements.

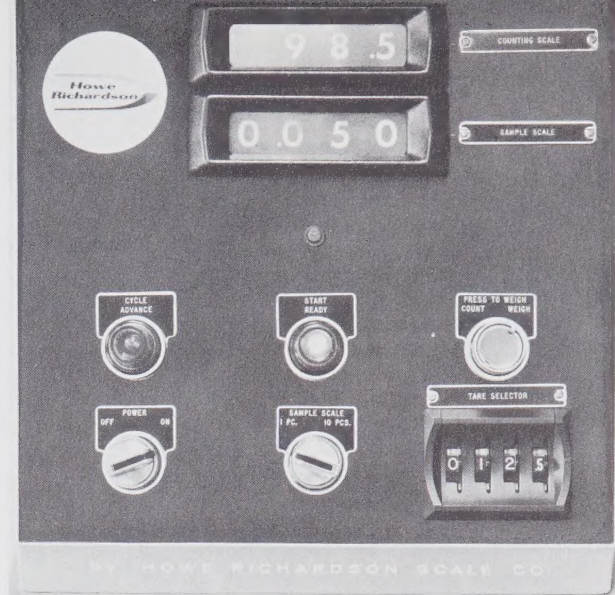
The South African subsidiary, although relatively small, had a very satisfactory year with substantial gains in sales and profits. The outlook in general for 1968 indicates continued growth in all of this Company's markets.

This process control console for the predetermined weighing of grain was recently shipped to a major grain handling facility in Quebec. The system will automatically control the weighing cycle of four, 75,000 lb. capacity grain scales.





Part of an order of fertilizer bagging scales in the Richardson Scale Co. (France) plant ready for shipment to Turkey.



The read-out portion of the new automatic counting system, the Magna Count, is shown in this photograph. The immediate translation of the weight of small parts into quantity is accomplished by this unit.

ORGANIZATION

HOWE RICHARDSON SCALE COMPANY, Clifton, New Jersey
 Raymond B. Carey, Jr. — *President and General Manager; Group Vice President, Robert Morse Corporation*

Walter M. Young — *Executive Vice President*

Arthur J. Burke — *Vice President— Engineering*

Joseph Giner — *Vice President — Sales*

John R. Szoygen — *Vice President — Manufacturing*

Russell J. Pederson — *Vice President — Finance*

John W. Aquadro — *Vice President — Systems Division*

John G. Fenton — *Senior Vice President*

CANADIAN SCALE DIVISION, Montreal

Fred J. Benoit — *General Manager*

HOWE RICHARDSON SCALE CO. LIMITED, Nottingham, England

T. Alan Shore — *Managing Director*

HOWE RICHARDSON SCALE (AFRICA) (PROPRIETARY) LTD.,

Johannesburg, South Africa

George Oliver — *Managing Director*

RICHARDSON SCALE COMPANY (FRANCE) S.A., Paris, France

Alphonse Dingemans — *President and Managing Director*

HOWE RICHARDSON SCALE CO. PTY. LIMITED, Broadmeadow, Australia

John A. Uhrig — *Managing Director*

PRODUCTS

Process control systems

Railroad track and motor vehicle scales

Industrial floor, portable, bench and overhead track scales

Electronic and mechanical scales for bulk weighing of liquids and materials

Packaging equipment

Electronic and mechanical scale indicator devices



JOHNSTON PUMP COMPANY

The year 1967 was one of significant achievement for the Johnston Pump Company. Late in April, all operations were moved from the Pasadena plant to the new, modern and larger facility in Glendora.

Improved facilities for both manufacturing and testing in Glendora make possible the building of much larger pumps. In the vertical turbine pump line, 3 new sizes, 42", 48" and 64" units, were designed and built against firm orders. A new 60" propeller pump was also designed, and several units built and shipped to customers. These larger units have placed Johnston in a position to serve a rapidly growing segment of the total pump market that it had been unable to reach in the Pasadena plant.

Sales again established a record, exceeding the prior year by nearly a million dollars. Bookings also reached a new high, and the Company entered 1968 with the biggest backlog in its history.

Profits for the year, however, were substantially below those of the prior year, due to a variety of causes. Startup costs, some lost production and

heavy development costs for the new large units all contributed to the profit decline. Continually increasing material and labour costs also have had an adverse effect on operating profits. Modest price increases recently announced for Johnston products will partially offset these cost increases, and the already established increased rate of production, accelerating in 1968, will also do much towards restoring the profit levels of prior years.

Demand for Johnston products continues at a high level in this growth industry. With greatly improved facilities, and a well organized and expanded organization, there is every reason to be optimistic about profit prospects for this Company.

Many organizational changes were undertaken by the new management in Johnston Howe de Mexico to strengthen the Company's profit position during 1967. As a result, Johnston Howe, which had suffered a loss in 1966, reached a breakeven position on operations in 1967. Continued improvement is anticipated for 1968.

ORGANIZATION

JOHNSTON PUMP COMPANY, Glendora, California

L. Allan Weom — *President and General Manager;*
Vice President, Robert Morse Corporation

John R. Mapel — *Senior Vice President*

Perry H. Brown — *Vice President — Engineering*

George C. Fee — *Vice President — Manufacturing*

Paul E. Barnhart — *Vice President — Controller and Secretary*

JOHNSTON HOWE DE MEXICO S.A. DE C.V., Mexico City, Mexico

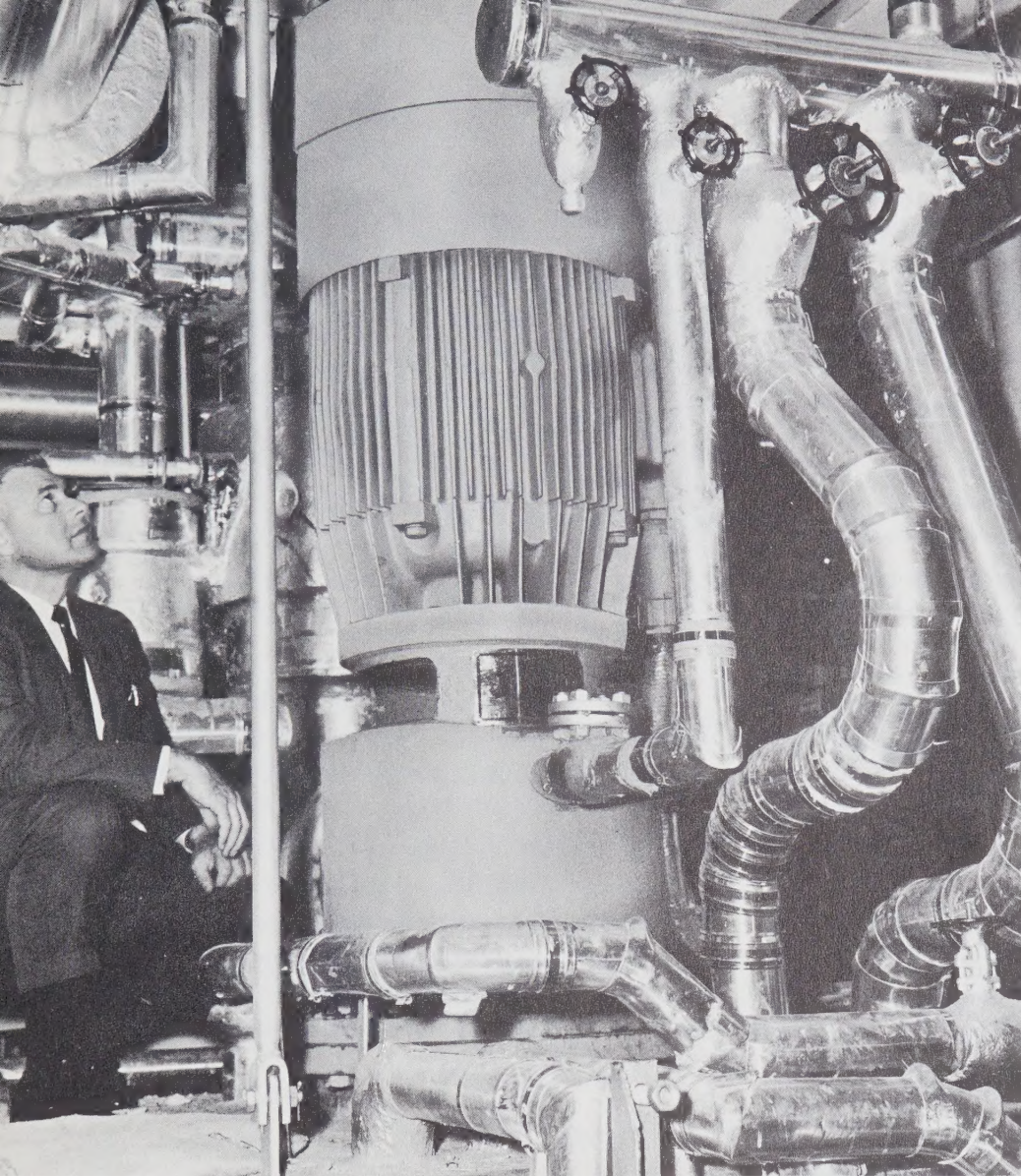
Salvador Madero, Jr. — *Executive Vice President and General Manager*

PRODUCTS

High Lift Vertical Turbine Pumps — 4" through 64" in diameter

Medium Lift Vertical Mixed Flow Pumps — 16" through 54" in diameter

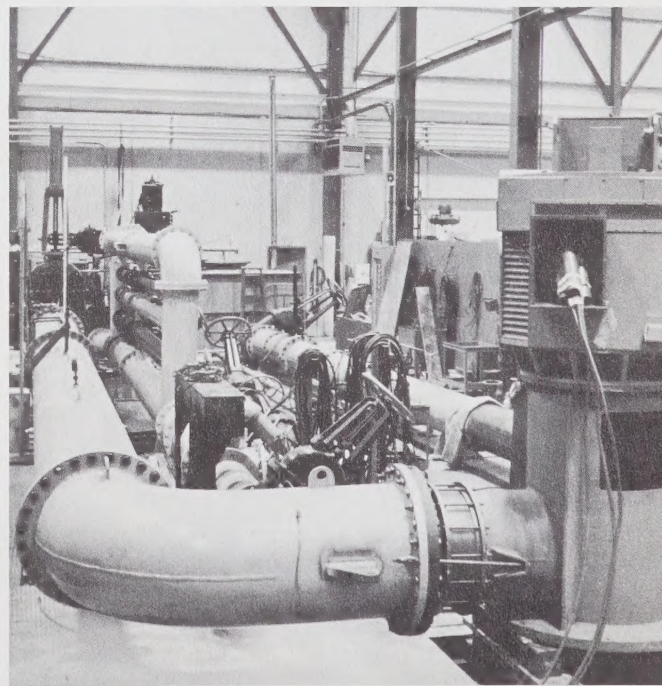
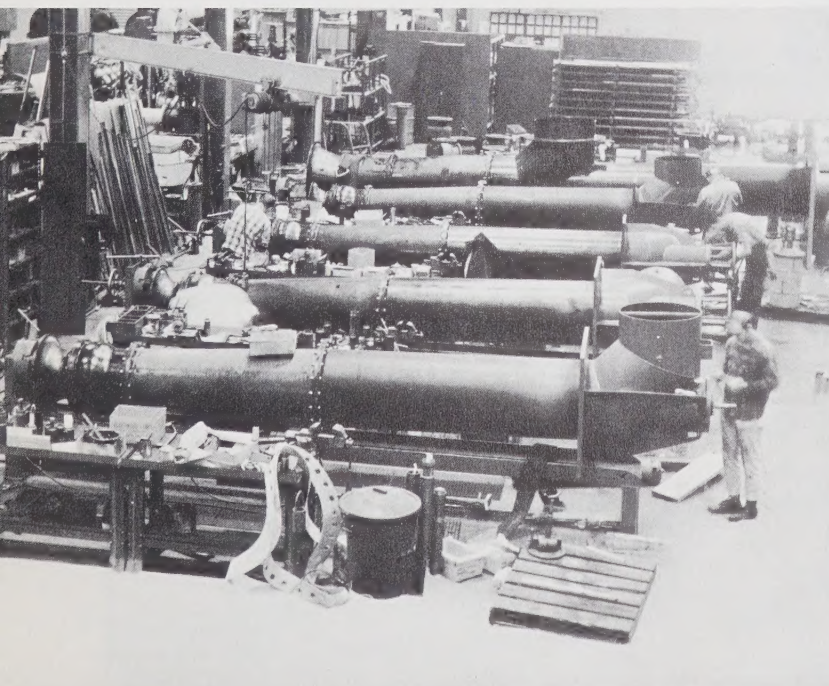
Low Lift Vertical Propeller Pumps — 8" through 72" in diameter



1. This unit is one of ten Johnston pumps installed aboard a molten sulphur tanker ship. Each pump unloads the molten sulphur from the ship at the rate of 1,000 gallons per minute. These pumps are equipped with steam jacketing to help maintain the sulphur in a liquid state at a temperature of 280°.

2. Four pumps under assembly for use in a paper processing plant. Units are 75 HP single stage mixed flow pumps with a capacity of 9,000 gallons per minute.

3. A view of one of the new large diameter vertical turbine pumps on the test line in the new hydraulic laboratory.

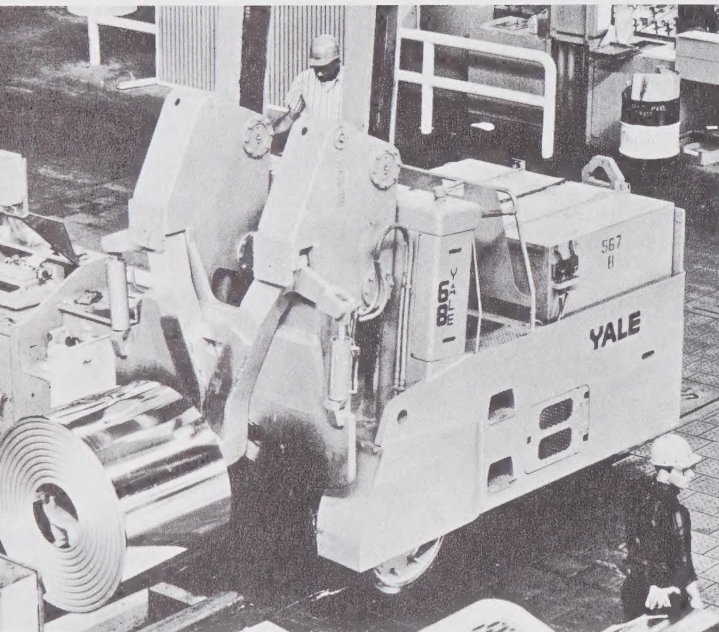




MATERIALS HANDLING DIVISION



The Cushman personnel carrier was a common sight at Expo '67. Robert Morse Corporation provided all of the 179 "official Expo vehicles".



During 1967, the Materials Handling and Logging Equipment Division operated as a single unit. Early in 1968, the Logging and Construction Equipment Department was set up as a separate division.

Sales of both materials handling equipment and logging equipment set a new record last year, but higher operating costs decreased profit margins. Co-ordinated marketing programs have been established for Materials Handling products and intensive cost control programs have been instituted.

Pictured in a steel mill is a Yale Model K71 — 30,000 lb. split ram steel coil handler for tin plate.

ORGANIZATION MATERIALS HANDLING DIVISION, Montreal

Fred J. Benoit — *General Manager*

PRODUCTS Yale Lift Trucks
Namco Lift Trucks
Melroe "Bobcat" Loader
Cushman Personnel Carriers & Golf Carts
Speed King Beltveyors



FORESTRY EQUIPMENT DIVISION

The Company now has the largest range of logging equipment in Canada. As this activity has reached the level where further growth can more easily be co-ordinated on a divisional basis, it was separated from the Materials Handling Division early in 1968 and established as the Forestry Equipment Division.

The right to market the Can-Car Tree Farmer in British Columbia was recently acquired. The Tree Farmer, a skidder used for removing felled trees to central areas, has been distributed by the Company in the Quebec and Alberta markets for some years.

Marketing programs for 1968 have been set up by the new Division aimed at the further development of markets for all product lines including the penetration of the Tree Farmer market in British Columbia.

ORGANIZATION FORESTRY EQUIPMENT DIVISION, Montreal
Joseph A. Moreau — *General Manager*

PRODUCTS Can-Car Tree Farmer
Sund Tree Processing System
Volvo Front-End Loader
Drott Hydraulic Log-Loaders, Back Hoes and Mobile Cranes

A Drott Logger at work in a pulp mill yard. This versatile unit can load, haul and unload pulp wood and be further utilized in slack time for backhoeing, front-end loading and even snowplowing.





RUDEL INDUSTRIAL DIVISION

Sales of the Rudel Industrial Division leveled out during the second half of 1967, reflecting a decline in demand for machine tools and other capital equipment in Canada. Operating profits were somewhat behind those of the previous year due to higher distribution costs and increased sales development expenses for new lines. There has been, however, a significant increase in the sale of numerically controlled machine tools following efforts of manufacturers to reduce labor cost and improve productivity. The demand for industrial equipment and supplies was slightly ahead of the previous year. The recent machinery tariff changes directed towards the improvement of Canadian manufacturing productivity are expected to have a beneficial effect in encouraging investment in high-efficiency tooling.

Two of the several major numerically-controlled installations made by this Division in 1967 are illustrated in this section.

ORGANIZATION RUDEL INDUSTRIAL DIVISION, Montreal

Meredith S. Hayes — *Vice President and General Manager*

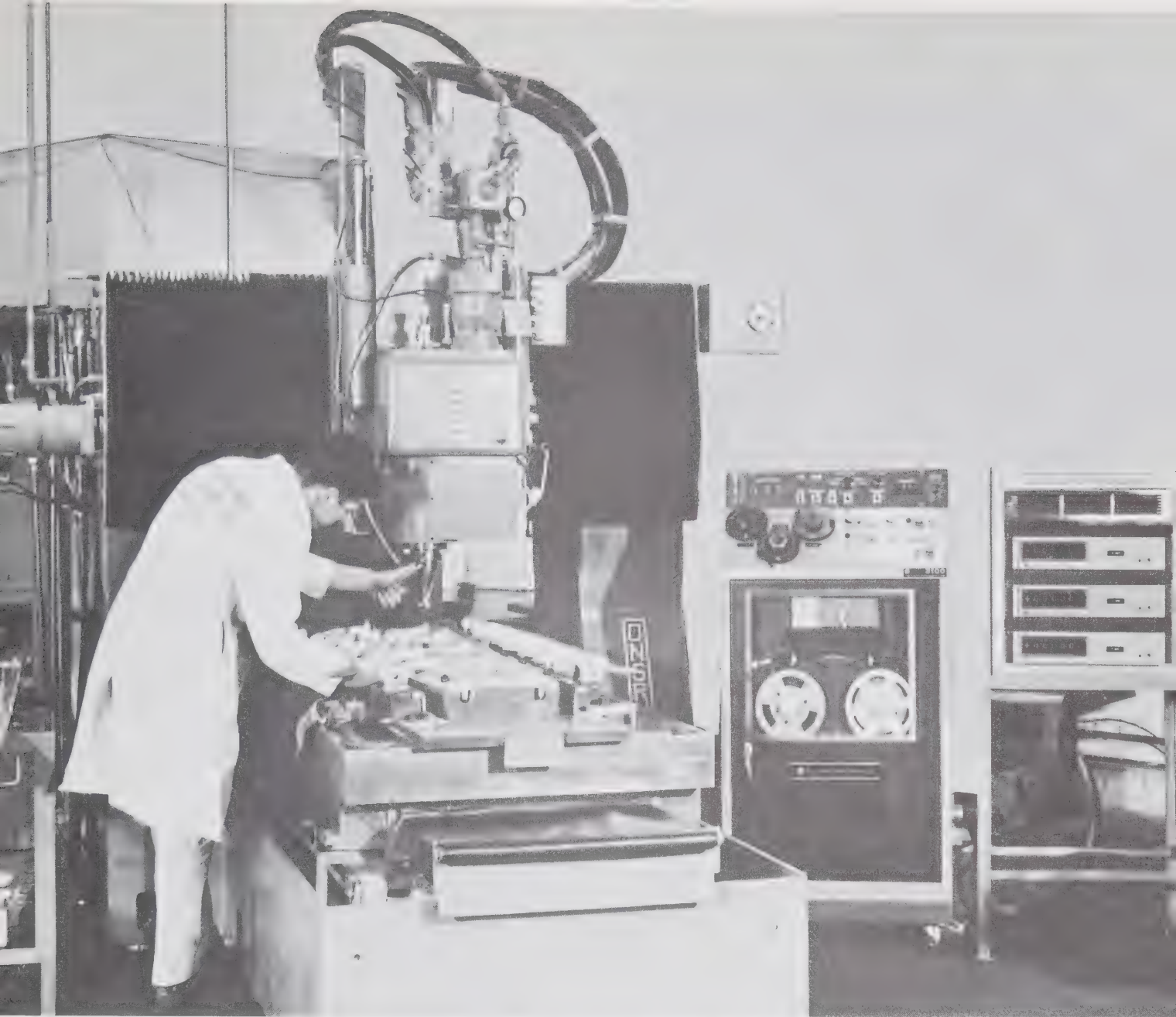
PRODUCTS Metal cutting and forming machine tools with numerical tape or conventional controls.

Super calenders, chilled iron rolls and swimming rolls
Pneumatic expansion cores
Calipers
Roll grinders

Testing machines, precision instruments
Gauging equipment and comparators

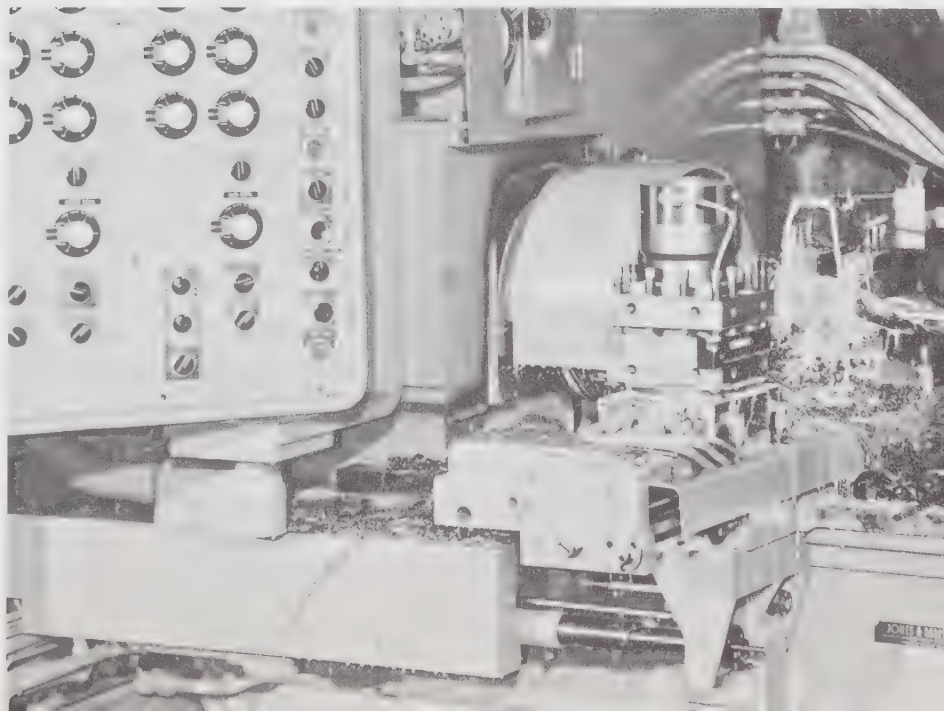
Textile and Woodworking machinery and supplies

Power tools, hoisting apparatus, air and hydraulic accessories, compressors and unit heaters and dryers, consumable cutting tools, abrasives and carbides as well as a complete line of machine shop and industrial supplies.



The Onsrud F36 tape controlled milling machine can machine parts with complex contours to close tolerances. It is being used by Champion Machine & Tool Co. Ltd. to produce parts for the aircraft and space industries.

A close view of a Jones and Lamson Special-matic, 3-axis Turret Lathe installed at a Sherbrooke plant. The design, which incorporates plug-in solid state transistorized circuitry, reduces set-up time, automates short runs and assures accuracy and finish.





ENGINEERING SALES DIVISION

Sales of pumps and non-marine engines increased during 1967. However, the overall lower volume of the Engineering Sales Division was due mainly to the sale as at June 30 of the large engine segment of the marine propulsion business. Although a portion of this marine business was sold, the Division is still engaged in the design and installation of marine diesel propulsion systems up to 800 HP, utilizing the Dorman line of engines.

Several of the many Johnston vertical turbine pumps installed in 1967 were supplied for the potash industry and for irrigation. The pumps in the South Saskatchewan River Irrigation Project are supplying 200 million gallons of water per day.

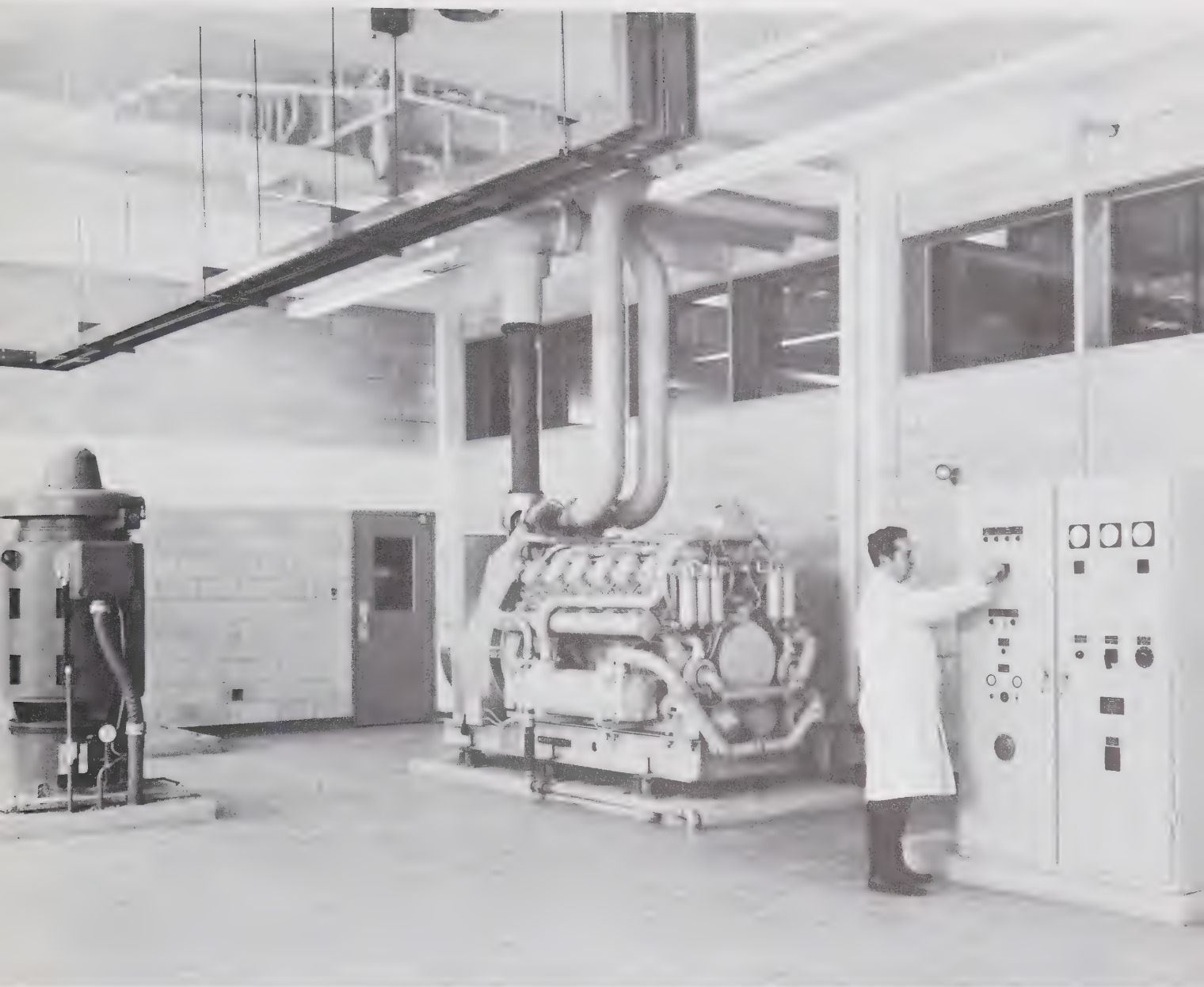
The test facilities in Montreal have been improved and permit thorough testing of diesel engines, generating sets and gas turbine sets under assembly. In 1967, the first fully automatic gas turbine powered generating set was produced for The Bell Telephone Company of Canada by Mackey Automation.

Late in the year, several new lines were taken on by the Division. The pump line was broadened both as to type and geographical distribution areas. In addition, arrangements were made to further penetrate the critical power field through uninterrupted power systems, an extension of the generating set business.

ORGANIZATION **ENGINEERING SALES DIVISION, Montreal**
James H. Maclure — *General Manager*

MACKEY AUTOMATION AND CONTROLS LTD., Montreal
Patrick J. Mackey — *Vice President and General Manager*

PRODUCTS Johnston vertical turbine, mixed flow and propeller pumps
Centrifugal, reciprocating and screw pumps
Stationary and marine diesel engines
Diesel, gas, gasoline and gas turbine generating sets
Generating set distribution and process control panels
Critical (uninterrupted) power systems



This 400 KW fully automatic generating set, located in the City of Jacques Cartier filtration plant, becomes the main power source when commercial power fails. Also installed in the plant are two 500 HP Johnston 2-stage vertical turbine pumps and one 200 HP Johnston 1-stage turbine pump, the latter shown at the left.

ROBERT MORSE APPLIANCES LIMITED, Edmonton, Alberta

William L. Foote — *Executive Vice President*

Robert Morse Appliances improved considerably during the year and produced profitable results. This Company distributes a wide range of household appliances in Alberta and Saskatchewan.



GALBRAITH & SULLEY LIMITED

Galbraith & Sulley Limited became a new unit of the Robert Morse Corporation group in September, 1967.

Founded by W. K. E. Sulley in 1934, Galbraith & Sulley Limited is a leading specialist in British Columbia of mill equipment for the lumber industry with a fine reputation for product quality and consulting services rendered to the industry. Equipment designed, manufactured and distributed by

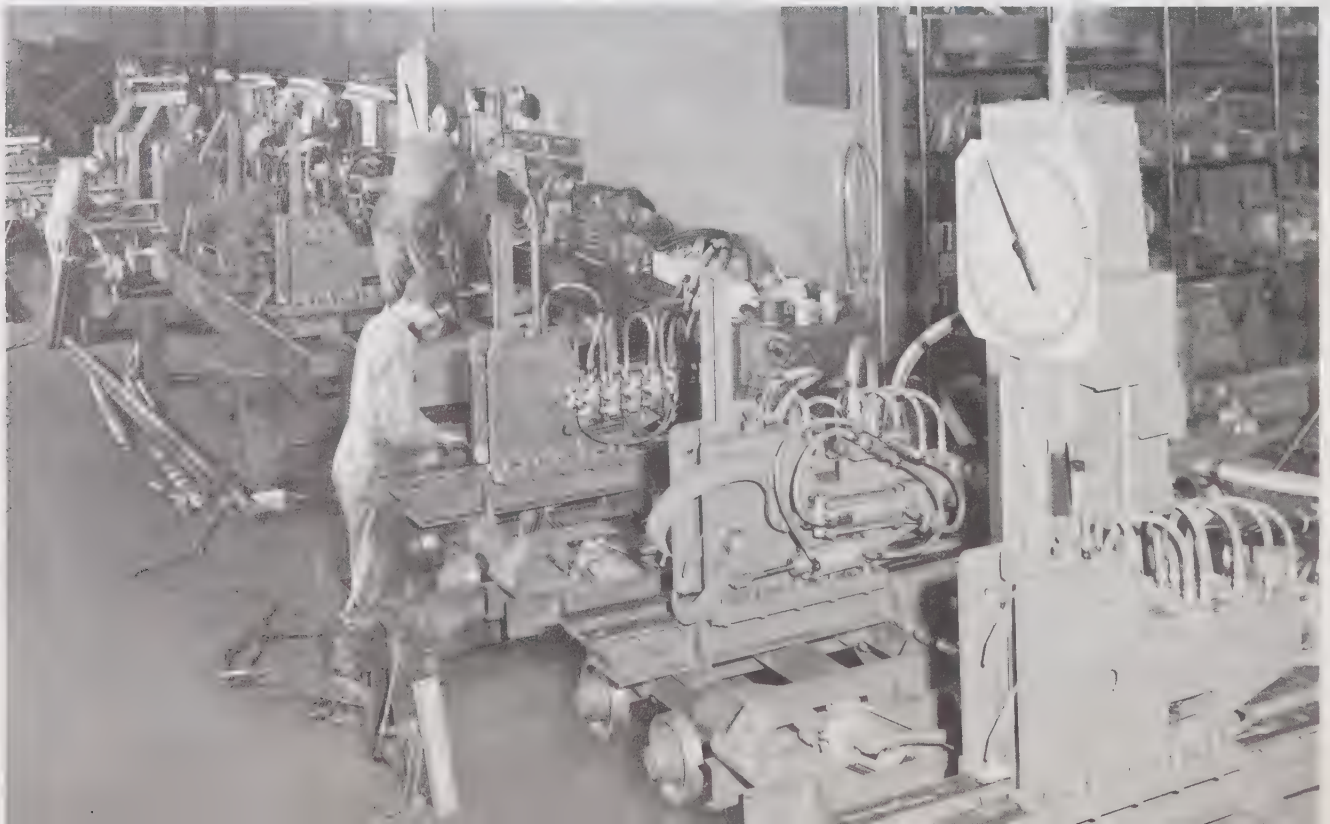
Galbraith & Sulley includes all the integrated machines required in sawmills, planer mills and dry kilns. The "Trojan" trade name is well known and highly regarded among the purchasers of heavy, automated, rugged equipment for the mill.

Although British Columbia has been the primary market, Trojan equipment is sold to customers in many other parts of the continent and as far away as Taiwan, China.

ORGANIZATION GALBRAITH & SULLEY LIMITED, Vancouver, B.C.
John E. Taylor — *President & General Manager*
W. K. E. Sulley — *Director & Consultant*

PRODUCTS Sawmill carriages, line bar resaws, edgers, stackers, chippers
Power transmission and air fluid power equipment
Rees Burners

Trojan sawmill carriages on the assembly line at the Galbraith & Sulley plant in Vancouver. These carriages are the result of years of continued development by skilled sawmill designers.





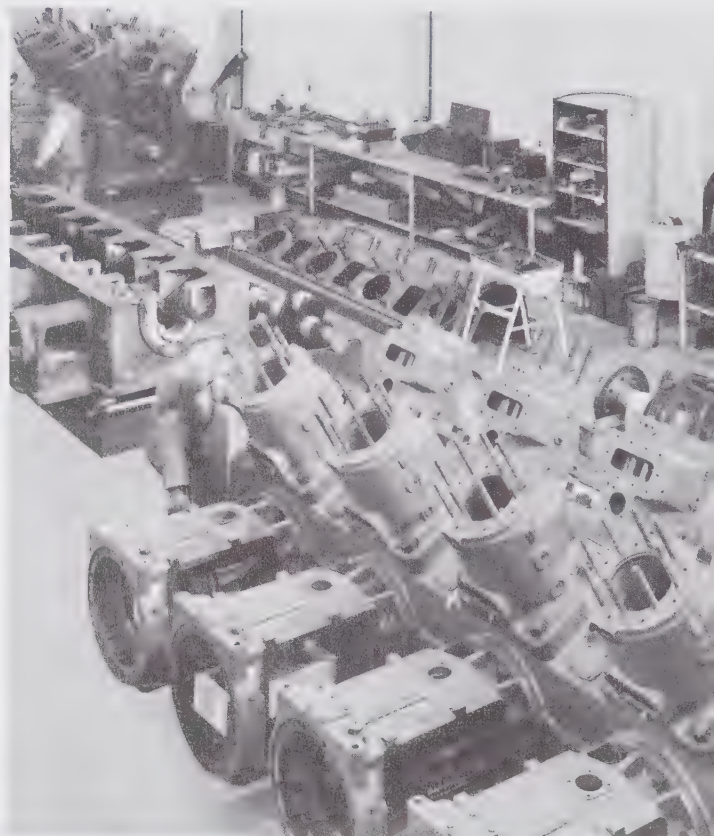
MID-WESTERN COMPRESSOR SUPPLIES LIMITED **MID-WESTERN MACHINE WORKS LIMITED**

Mid-Western Compressor Supplies Limited and Mid-Western Machine Works Limited became subsidiaries of Robert Morse Corporation in April, 1967.

Mid-Western sell, service and rebuild gas compressor units and related equipment, mainly applicable to gas processing, gathering systems, re-injection and transmission. Oil production, petrochemical refineries and the general industrial field are also serviced by this operation.

Customers of Mid-Western include all of the major companies in the oil and gas industry. An excellent reputation has been built up in Saskatchewan, Alberta and British Columbia for speedy, high quality service, both on site and in-plant. This includes prompt provision of replacement parts and units to customers necessary to reduce losses from costly down-time. The Machine company expanded its facilities in 1967 and is now capable of repairing, servicing and assembling large package compressor and plant equipment.

Mid-Western enjoyed a good year in 1967 and is expected to continue its development in conjunction with Western Canada's gas industry which is, presently growing at the annual rate of 8—10%.



Mid-Western has the facilities for in-plant servicing of the largest compressor and power units used by the oil and gas industry. Equipment requiring service is first stripped down on this floor before being sent to the cleaning vats.

ORGANIZATION

MID-WESTERN COMPRESSOR SUPPLIES LIMITED, Calgary, Alberta
MID-WESTERN MACHINE WORKS LIMITED, Calgary, Alberta

John W. Leary — *President & General Manager*

John T. Young — *Vice President*

PRODUCTS & SERVICES

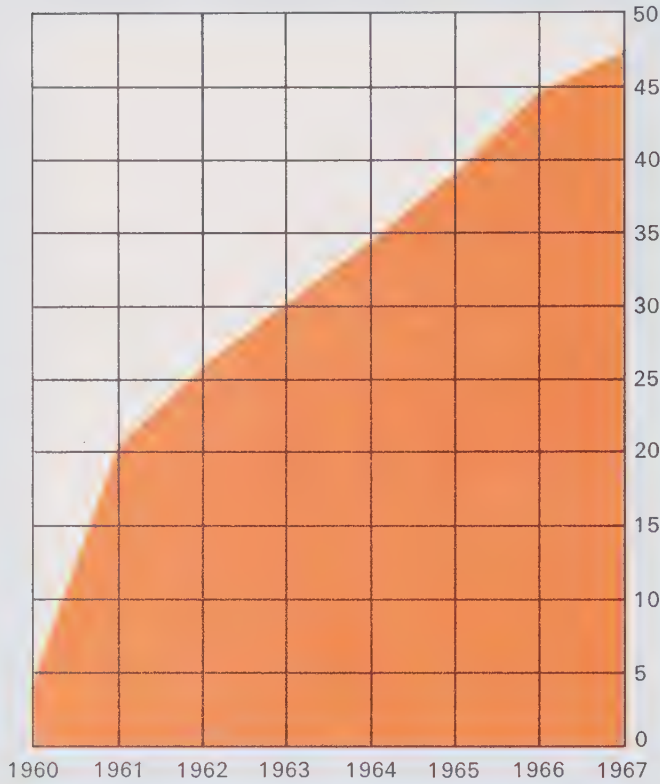
Shop and on site maintenance and repair service for engines and compressors.

Replacement parts and complete engineering and installation services for engines, compressors and pumps.

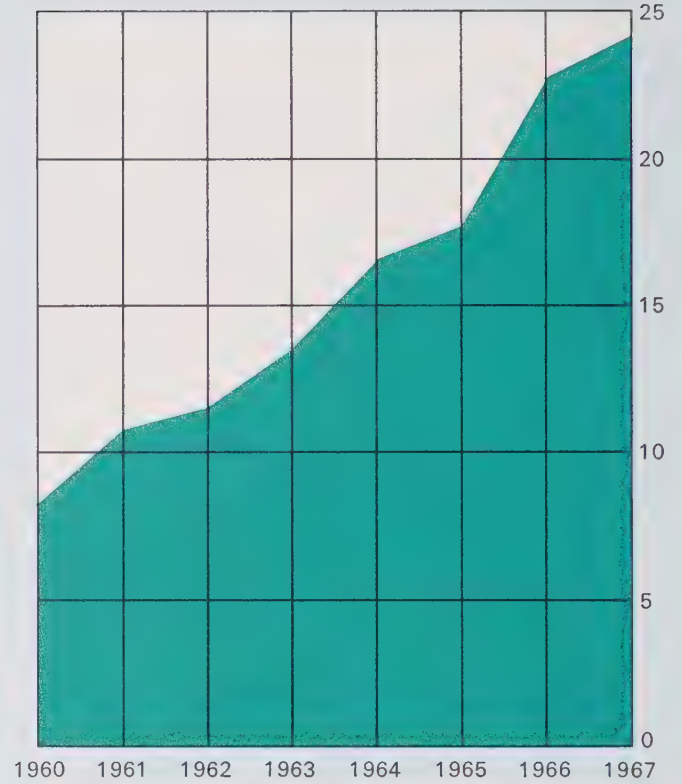
SALES BY PRODUCT GROUP

(Millions of Dollars)

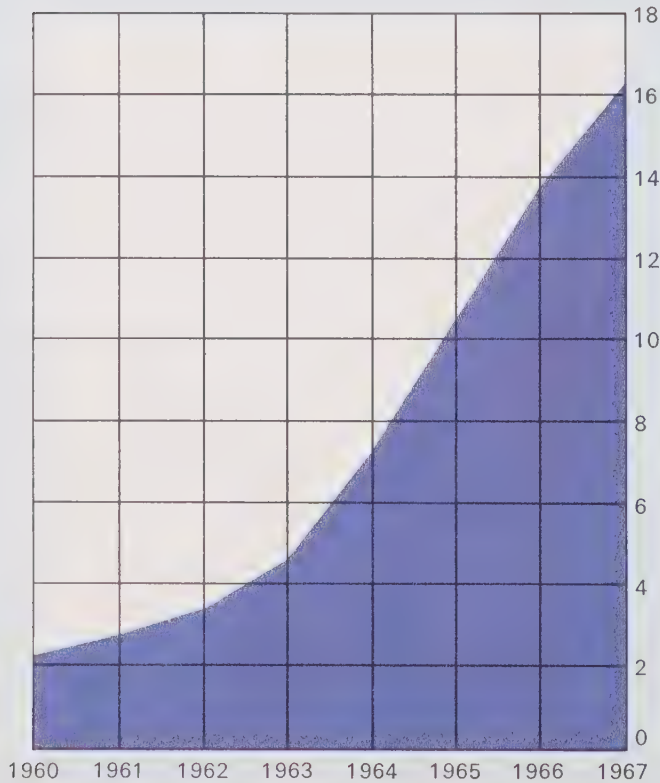
MANUFACTURED SCALES, PROCESS CONTROL EQUIPMENT AND PUMPS



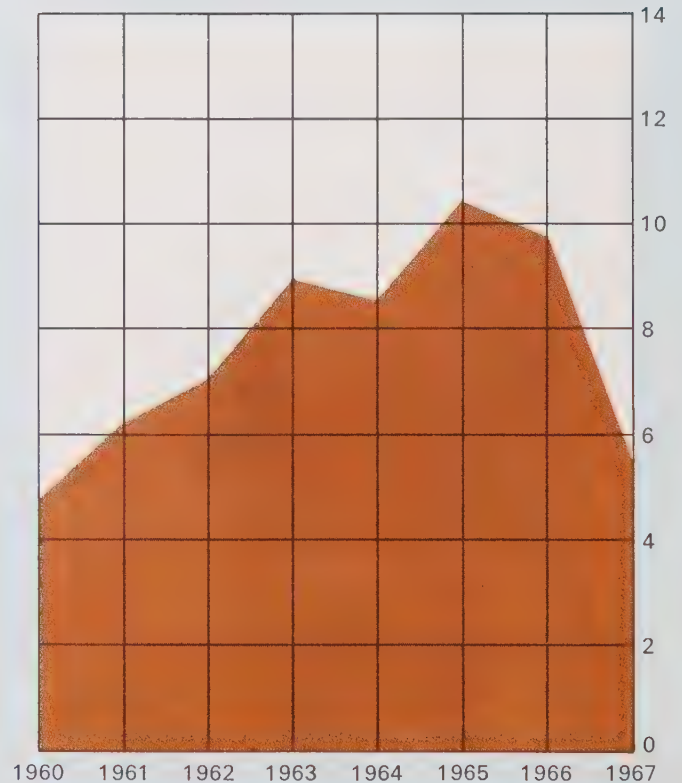
MACHINE TOOLS, INDUSTRIAL SUPPLIES AND EQUIPMENT



MATERIALS HANDLING, LOGGING AND CONSTRUCTION EQUIPMENT



MARINE PROPULSION UNITS, GENERATING SETS AND WATER SYSTEMS





**CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 1967**

	1967	1966
Net sales	\$95,574,412	\$93,280,396
Income from operations for the year, before the undernoted items	\$ 5,138,129	\$ 5,227,816
Interest (including \$459,072 on long-term debt)	1,157,861	1,090,118
Depreciation	735,777	619,504
Minority interest	35,080	(58,825)
	<u>1,928,718</u>	<u>1,650,797</u>
Income before taxes and extraordinary items	3,209,411	3,577,019
Income taxes	1,396,328	1,632,620
Income before extraordinary items	<u>1,813,083</u>	<u>1,944,399</u>
Extraordinary items (Note 3)	619,611	—
Net income	<u>\$ 2,432,694</u>	<u>\$ 1,944,399</u>

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Balance at beginning of year	\$ 7,649,913	\$ 6,838,432
Net income	2,432,694	1,944,399
	<u>10,082,607</u>	<u>8,782,831</u>
Less: Underwriting commission on issue of shares	168,000	162,000
Premium on shares of a subsidiary, written off	250,831	203,812
Special tax on designated surplus of a subsidiary, wound up in a prior year.	104,658	—
	<u>523,489</u>	<u>365,812</u>
	<u>9,559,118</u>	<u>8,417,019</u>
Dividends:		
Series A Preferred shares — \$2.75 (\$1.72½ in 1966)	197,814	124,200
Series B Preferred shares — \$1.71½	123,480	—
Class A shares — \$0.97½ (\$0.85 in 1966)	539,528	452,305
Class B shares — \$0.87½ (\$0.75 in 1966)	222,368	190,601
	<u>1,083,190</u>	<u>767,106</u>
Balance at end of year	<u>\$ 8,475,928</u>	<u>\$ 7,649,913</u>

(The accompanying Notes to Financial Statements are an integral part hereof)



CONSOLIDATED BALANCE SHEET
DECEMBER 31, 1967

ASSETS	1967	1966
CURRENT ASSETS:		
Cash	\$ 1,214,797	\$ 780,255
Accounts and notes receivable	20,324,161	19,392,263
Inventories (at the lower of cost or market):		
Finished products, manufactured or purchased	15,659,614	14,973,971
Work-in-process	3,488,948	3,989,566
Raw materials and supplies	2,997,308	2,973,737
	<u>22,145,870</u>	<u>21,937,274</u>
Prepaid expenses	360,060	481,342
	<u>44,044,888</u>	<u>42,591,134</u>
FIXED ASSETS, at cost:		
Land	659,513	376,432
Buildings	3,655,850	1,574,972
Plant and equipment	7,348,007	6,225,382
	<u>11,663,370</u>	<u>8,176,786</u>
Less: Accumulated depreciation	4,706,139	3,960,741
	<u>6,957,231</u>	<u>4,216,045</u>
Plant under construction	—	1,394,777
	<u>6,957,231</u>	<u>5,610,822</u>
PREMIUM ON SHARES OF SUBSIDIARIES		
(at cost, less amounts written off)	1,146,094	788,086
 Signed on behalf of the Board:		
R. H. MORSE, III, Director		
J. E. McQUILKIN, Director		
	<u>\$52,148,213</u>	<u>\$48,990,042</u>

LIABILITIES		1967	1966
CURRENT LIABILITIES:			
Bank indebtedness (secured \$944,491)		\$ 8,559,481	\$ 9,314,399
Notes payable		2,416,200	3,129,259
Trade and other accounts payable		11,957,338	12,906,718
Income and other taxes		697,171	1,750,746
Instalments on long-term debt (Note 4)		684,928	627,946
Customers' deposits on contracts		—	511,202
		<u>24,315,118</u>	<u>28,240,270</u>
DEFERRED INCOME TAXES		367,579	—
LONG-TERM DEBT (Note 4)		<u>8,149,069</u>	<u>6,941,013</u>
MINORITY INTEREST IN SUBSIDIARIES		<u>108,662</u>	<u>173,045</u>
SHAREHOLDERS' EQUITY			
Capital stock (Note 5):			
Authorized —			
200,000 Preferred shares of the par value of \$50 each, issuable in series			
4,000,000 Class A shares without nominal or par value			
2,000,000 Class B shares without nominal or par value			
Issued —	1967	1966	
5½% Cumulative Redeemable			
Convertible Preferred Shares			
Series A	71,730	72,000	3,586,500
Series B	72,000	—	3,600,000
Shares without nominal or par value			
Class A	587,232	539,182	3,545,357
Class B	254,135	254,135	2,385,801
			<u>10,731,857</u>
Retained earnings (Note 6)		8,475,928	7,649,913
		<u>19,207,785</u>	<u>13,635,714</u>
		<u>\$52,148,213</u>	<u>\$48,990,042</u>

(The accompanying Notes to Financial Statements are an integral part hereof)



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1967

1 BASIS OF CONSOLIDATION:

The consolidated financial statements include the accounts of Robert Morse Corporation Limited and those of all of its subsidiary companies.

Accounts of subsidiaries expressed in currencies other than Canadian have been translated into Canadian dollars at rates of exchange current at December 31, 1967 except (a) fixed assets, long-term liabilities and depreciation provision, at rates prevailing at dates of acquisition or issue and (b) income and expenses (other than depreciation) at the average rates of exchange in effect during the year.

2 DIRECTORS' REMUNERATION:

Directors' fees and remuneration of salaried directors for the year amounted to \$362,456.

3 EXTRAORDINARY ITEMS:

The extraordinary items consist of the following:

Gain on sale of a portion of the Pasadena, California property of Johnston Pump Company (less related deferred income taxes \$211,876)	\$314,231
Costs of relocation of the Johnston Pump Company plant at Glendora, California (less corresponding reduction in income taxes \$59,737)	(64,715)
Gain on sale of marine propulsion business	370,095
	<u>\$ 619,611</u>

4 LONG-TERM DEBT:

	1967	1966
Note * payable in semiannual instalments of US\$91,386 to 1990 (effective interest rate 5.15%)	\$2,759,374	\$2,825,531
Note * payable in semiannual instalments of US\$126,183 to 1975 (effective interest rate 5.15%)	1,797,214	1,979,244
6% Subordinated Debentures * US\$1,500,000 due in 1971	1,570,305	1,570,305
6½% Mortgage loan * payable quarterly to 1987	1,602,583	—
6% Mortgage loan * payable monthly to 1969	291,392	424,445
6% Subordinated Serial Notes * payable US\$68,893 annually to 1972	290,838	363,167
Other term obligations, payable over periods varying from one to six years	522,291	406,267
	<u>8,833,997</u>	<u>7,568,959</u>
Less: Amounts due within one year, included with current liabilities	684,928	627,946
	<u>\$8,149,069</u>	<u>\$6,941,013</u>

*Debentures, loans and notes secured by collateral mortgages or trust deeds against fixed assets.

5 CAPITAL STOCK:

(a) Class A Shares:

The holders of Class A shares are entitled to a cumulative annual dividend of 70¢ per share and to participate equally in further amounts per share after payment of a non-cumulative dividend of 60¢ per share on Class B shares. The Class A shares are non-voting unless arrears of cumulative dividends aggregate \$1.40 per share.

The Company may purchase for cancellation any or all of the outstanding Class A shares by invitation for tenders addressed to all holders or in the open market, after having notified vendors that the Company is the purchaser.

(b) Issue of Shares in 1967:

(i) 72,000 of the authorized but unissued Preferred shares were designated 5½% Cumulative Redeemable Convertible Preferred Shares, Series B, and were issued at par for cash.

(ii) 675 Class A shares were issued upon conversion of 270 5½% Cumulative Redeemable Convertible Preferred Shares, Series A, concurrent with an aggregate cash payment to the Company of \$2,025.

(iii) 40,000 Class A shares were issued for \$1,000,000 cash. The proceeds of this issue together with an additional 4,875 Class A shares issued for an aggregate consideration of \$117,000 represented the purchase price of all of the outstanding capital stock of Galbraith & Sulley Limited and Rees Burners Ltd.

(iv) 2,500 Class A shares were issued to an officer of a subsidiary for \$27,031 cash pursuant to an option granted in a prior year.

(c) Conversion Privileges:

(i) The conversion privilege attached to the Series A Preferred shares entitles the holders thereof to convert each Preferred share at any time into 2½ Class A shares upon payment to the Company of \$7.50 for each Preferred share converted.

(ii) The conversion privilege attached to the Series B Preferred shares entitles the holders thereof to convert each Preferred share at any time into 2 Class A shares upon payment to the Company of \$2.00 for each Preferred share converted.

(d) Reservation of Shares:

Class A shares are reserved as follows:

For conversion privilege attached to Series A Preferred shares	179,325
For conversion privilege attached to Series B Preferred shares	144,000
For warrant issued in 1962 exercisable at \$10 (U.S. funds) per share	150,000
For issue to Trustees of the Company's Stock Purchase Plan at a price to be determined at date of issue	10,000
For an option granted in 1968 to an officer of a subsidiary exercisable at \$18 per share to February 15, 1973	3,000
Total Class A shares reserved	<u>486,325</u>

6 RETAINED EARNINGS:

The provisions attached to the Series A and Series B Preferred shares restrict to \$2,945,014 the amount of retained earnings as at December 31, 1967 available for payment of dividends on Class A and Class B shares, for purchase for cancellation of Class A shares or for payment of tax on undistributed income under Section 105 of the Income Tax Act.

7 COMMITMENTS AND CONTINGENCIES:

(a) For conditional sales contracts discounted \$5,178,000 and guarantees \$111,000.

(b) For lease rentals aggregating \$601,000 annually, the major portion being for periods extending from three to twenty years.

(c) The Company is committed to purchase the 49% minority shareholders' interest in two subsidiaries, Mid-Western Compressor Supplies Ltd. and Mid-Western Machine Works Ltd., by 1972 at prices based upon earnings of the companies.



**STATEMENT OF SOURCE AND APPLICATION OF FUNDS
FOR THE YEAR ENDED DECEMBER 31, 1967**

	1967	1966
Funds provided —		
From operations:		
Net income before extraordinary items	\$1,813,083	\$1,944,399
Depreciation	735,777	619,504
Deferred income taxes	155,703	—
	<u>2,704,563</u>	<u>2,563,903</u>
Income from extraordinary items before deducting deferred income taxes (\$211,876) and book value of assets sold (\$70,580)	902,067	—
Issue of capital stock:		
Preferred shares	3,600,000	3,600,000
Shares without nominal or par value	1,144,031	224,883
Amounts received on conversion of preferred shares	2,025	—
	<u>4,746,056</u>	<u>3,824,883</u>
Mortgage loan	1,619,790	—
	<u>9,972,476</u>	<u>6,388,786</u>
Funds applied —		
Additions to fixed assets	2,152,766	2,082,385
Dividends paid	1,083,190	767,106
Reduction of long-term debt	411,734	614,702
Excess of purchase price of shares of subsidiaries over net assets acquired	640,543	—
Underwriting commission on stock issues	168,000	162,000
Other	137,337	136,087
	<u>4,593,570</u>	<u>3,762,280</u>
Increase in working capital	<u>\$5,378,906</u>	<u>\$2,626,506</u>

(The accompanying Notes to Financial Statements are an integral part hereof.)

**AUDITORS' REPORT
TO THE SHAREHOLDERS OF
ROBERT MORSE CORPORATION LIMITED:**

We have examined the consolidated balance sheet of Robert Morse Corporation Limited and subsidiary companies as at December 31, 1967 and the consolidated statements of income, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the companies as at December 31, 1967 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PRICE WATERHOUSE & CO.
Chartered Accountants.

Montreal, February 22, 1968



FIVE-YEAR REVIEW

	1967	1966	1965	1964	1963
OPERATING RESULTS					
Net Sales	\$95,574,000	\$93,280,000	\$80,359,000	\$69,422,000	\$60,114,000
Income before Taxes	3,209,000	3,577,000	2,558,000	1,618,000	1,138,000
Income Taxes	1,396,000	1,633,000	1,011,000	336,000	136,000
Income before Extraordinary Items	1,813,000	1,944,000	1,547,000	1,282,000	1,002,000
Net Income	2,433,000	1,944,000	1,547,000	1,282,000	1,002,000
Preferred Share Dividends	321,000	124,000	—	—	—
Class A and B Share Dividends	762,000	643,000	531,000	624,000	200,000
Depreciation	736,000	620,000	602,000	596,000	539,000
Funds Provided from Operations	2,705,000	2,564,000	2,150,000	1,878,000	1,541,000
FINANCIAL POSITION					
Working Capital	19,730,000	14,351,000	11,724,000	6,098,000	6,293,000
Total Assets	52,148,000	48,990,000	41,005,000	36,511,000	30,377,000
Long-Term Debt	8,149,000	6,941,000	7,556,000	2,990,000	3,522,000
Shareholders' Equity	19,208,000	13,636,000	8,999,000	8,062,000	7,330,000
SHAREHOLDER INFORMATION					
Per Share					
Earnings — Class A	1.87 ^(a) 2.64 ^(b)	2.35	2.05	1.73	1.37
— Class B	1.77 ^(a) 2.54 ^(b)	2.25	1.95	1.63	1.27
Dividends — Preferred A	2.75	1.72½	—	—	—
— Preferred B	1.71½	—	—	—	—
— Class A	0.97½	0.85	0.72½	1.22½	0.40
— Class B	0.87½	0.75	0.62½	—	—
Shareholders' Equity — Class A and B	14.29	12.65	11.58	10.55	9.79
Average Shares Outstanding					
Class A	557,000	531,000	517,000	506,000	499,000
Class B	254,000	254,000	250,000	250,000	250,000

(a) excluding extraordinary items

(b) including extraordinary items

BOARD OF DIRECTORS

Henry G. Birks — *President, Henry Birks & Sons Ltd., Montreal*
Joseph M. Breen — *Director, Canada Cement Co. Ltd., Montreal*
Raymond B. Carey, Jr. — *Group Vice President, Montreal*
R. deWolfe MacKay, Q.C. — *Duquet, MacKay, Weldon, Bronstetter, Willis & Johnston, Montreal*
James E. McQuilkin — *Vice President — Finance, Montreal*
Robert Morse, III — *President and General Manager, Montreal*
Gérard Plourde — *President, United Auto Parts Inc., Montreal*
Hubert T. Richardson — *President, Richardson Corporation, Clifton, New Jersey*
John M. Rudel — *Vice President, Montreal*
Robert Smillie — *Senior Vice President — Corporate Development, Montreal*
Claude M. Tétrault — *Vice President — General Counsel and Secretary, Montreal*
L. Allan Weom — *President, Johnston Pump Company, Glendora, California*

CORPORATE OFFICERS

Robert Morse, III — *President and General Manager*
Raymond B. Carey, Jr. — *Group Vice President*
James E. McQuilkin — *Vice President — Finance*
John M. Rudel — *Vice President*
Robert Smillie — *Senior Vice President — Corporate Development*
Claude M. Tétrault — *Vice President — General Counsel and Secretary*
G. Samuel Carpenter — *Comptroller and Assistant Secretary*

EXECUTIVE OFFICES

1155 Dorchester Boulevard W. — Montreal

BANKERS

Bank of Montreal
The Royal Bank of Canada
First National City Bank
New Jersey Bank and Trust Company
Continental Illinois National Bank and Trust Company of Chicago

AUDITORS

Price Waterhouse & Co., Montreal

TRANSFER AGENTS

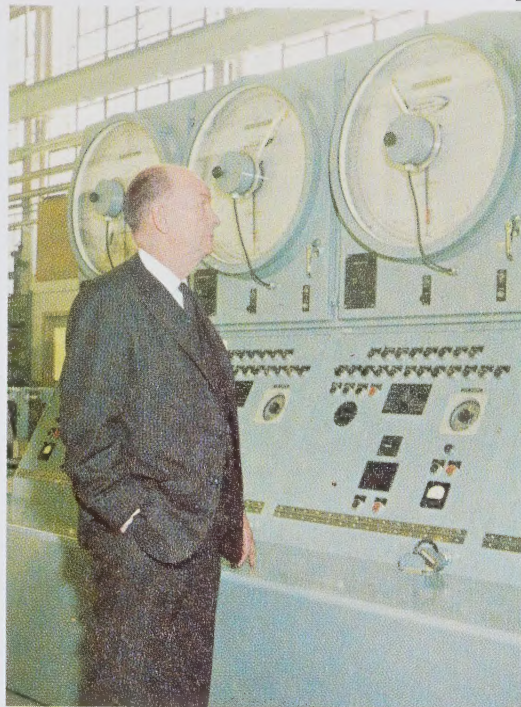
The Royal Trust Company
The First National Bank of Chicago

SALES OFFICES AND WAREHOUSES

Canada	Quebec	U.S.A.	Clifton	Jackson	Philadelphia
Amos	Regina	Albany	Dallas	Jacksonville	Pittsburgh
Calgary	St. Catharines	Atlanta	Denver	Kansas City	Portland
Chicoutimi	St. John's	Baltimore	Des Moines	Los Angeles	Richmond
Edmonton	Saskatoon	Birmingham	Detroit	Memphis	Roswell
Fort William	Sydney	Boston	Fresno	Milwaukee	St. Louis
Halifax	Toronto	Buffalo	Glendora	Minneapolis	San Francisco
Hamilton	Vancouver	Charlotte	Goodland	Moline	Seattle
London	Windsor	Chattanooga	Hartford	Newark	Spokane
Montreal	Winnipeg	Chicago	Houston	New Orleans	Tampa
Ottawa		Cincinnati	Idaho Falls	New York	Trenton
Prince George		Cleveland	Indianapolis	Omaha	

PLANTS

Montreal, Quebec	Clifton, New Jersey	Glendora, California	Southgate, California	Nottingham, England	Broadmeadow, Australia
Vancouver, British Columbia	Minneapolis, Minnesota	Rutland, Vermont	Mexico City, Mexico	Paris, France	Johannesburg, South Africa



In September the Board of Directors' meeting was held at the Rutland plant of Howe Richardson Scale Company, and in October at the new Johnston Pump Company plant in Glendora.

These visits provided an opportunity to review the results of the major subsidiaries and discuss their plans and objectives for the coming year.

1. R. H. Morse III and L. A. Weom in test laboratory at Glendora during testing of 1,500 HP motor and 42" pump.

2. J. M. Rudel beside a recently completed control unit for the weighing of grain.

3. H. G. Birks and H. T. Richardson.

4. P. H. Brown (Vice President — Engineering, Johnston Pump Company) with R. Smillie (Left) and R. B. Carey, Jr. (Right).

5. J. E. McQuilkin, C. M. Tétrault, John Mapel (Senior Vice President, Johnston Pump Company) and J. M. Breen beside a 100" boring mill.

6. Turbine pump impellers are inspected by R. de Wolfe MacKay, George Fee (Vice President — Manufacturing, Johnston Pump Company), R. H. Morse III and G. Plourde.

MANUFACTURERS OF:

Process control systems
Weighing equipment
Packaging equipment
Bulk handling equipment
Vertical irrigation and industrial pumps
Propeller and mixed flow pumps
Electric generating sets
Control panels
Sawmill machinery

CANADIAN DISTRIBUTORS OF:

Machine tools and metal working machinery
Textile machinery
Materials handling equipment
Machinery for woodlands operations
Industrial equipment and supplies
Marine diesel propulsion installations
Industrial diesel engines
Gas compressors



ROBERT MORSE CORPORATION LIMITED